

EXHIBIT 10

**THE METROPOLITAN SEWER DISTRICT
OF GREATER CINCINNATI**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

December 31, 1994

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**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
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INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
The Metropolitan Sewer District of Greater Cincinnati
County of Hamilton, Ohio

We have audited the balance sheets of The Metropolitan Sewer District of Greater Cincinnati (MSD), a component unit of County of Hamilton, Ohio, as of December 31, 1994 and 1993, and the related statements of revenues and expenses, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of MSD's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Metropolitan Sewer District of Greater Cincinnati, at December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 12 to the financial statements, MSD changed its method of computing accrued compensated absences as of December 31, 1994, in accordance with Statement No. 16 of the Governmental Accounting Standards Board.

VonLehman & Company Inc.

May 12, 1995

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

BALANCE SHEETS

December 31, 1994 and 1993

(amounts expressed in thousands)

ASSETS

	1994	1993
Current Assets		
Cash and Equivalents	\$ 12,048	\$ 9,703
Accounts Receivable	16,210	15,763
Grants Receivable	398	398
Prepaid Expenses and Other	2,240	1,086
Total Current Assets	<u>30,896</u>	<u>26,950</u>
Restricted Assets		
Cash and Cash Equivalents Held by the City of Cincinnati:		
Construction Account	9,375	10,706
Amount to be Transferred to Surplus Account	14,130	9,580
Investments Held by Trustee (Net of Premiums and Discounts)		
Cash and Cash Equivalents	22	29,556
Investments	51,466	48,499
Total Restricted Assets	<u>74,993</u>	<u>98,341</u>
Property, Plant and Equipment		
Land	3,965	3,718
Buildings and Structures	404,377	382,252
Processing Systems	205,794	205,111
Office and Service Equipment	16,901	15,188
Construction in Progress	69,024	46,299
	<u>700,061</u>	<u>652,568</u>
Less Accumulated Depreciation	<u>(214,453)</u>	<u>(195,358)</u>
Total Property, Plant and Equipment, Net	<u>485,608</u>	<u>457,210</u>
Other Assets:		
Unamortized Financing Costs	8,052	8,615
Settlements Receivable	1,316	1,316
Other	3,134	3,350
Total Other Assets	<u>12,502</u>	<u>13,281</u>
Total Assets	<u>\$ 603,999</u>	<u>\$ 595,782</u>

LIABILITIES AND EQUITY

	1994	1993
Current Liabilities		
Current Portion of Long-term Debt	\$ 6,983	\$ 6,486
Accounts Payable	3,698	2,286
Accrued Payroll Expenses	1,026	1,277
Total Current Liabilities	<u>11,707</u>	<u>10,049</u>
Payable from Restricted Assets		
Construction Account	5,905	3,943
Bond Account	1,082	1,110
Total Payable from Restricted Assets	<u>6,987</u>	<u>5,053</u>
Long-Term Liabilities		
Accrued Compensated Absences	5,478	1,251
Long-Term Debt	239,549	244,065
Total Long-Term Liabilities	<u>245,027</u>	<u>245,316</u>
Total Liabilities	<u>263,721</u>	<u>260,418</u>
Equity		
Contributions in Aid of Construction	178,114	181,537
Retained Earnings	162,164	153,827
Total Equity	<u>340,278</u>	<u>335,364</u>
Total Liabilities and Equity	<u>\$ 603,999</u>	<u>\$ 595,782</u>

See auditors' report and accompanying notes.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
Years Ended December 31, 1994 and 1993
(amounts expressed in thousands)

	<u>1994</u>	<u>1993</u>
Operating Revenues		
Sewerage Service Charges	\$ 83,549	\$ 78,773
Sewerage Surcharges	11,578	10,713
Other Revenues	<u>3,063</u>	<u>3,691</u>
Total Operating Revenues	<u>98,190</u>	<u>93,177</u>
Operating Expenses		
Personnel Services	34,965	32,513
Utilities, Fuel and Supplies	13,232	12,008
Depreciation and Amortization	20,551	19,043
Purchased Services	13,200	10,792
Other Expenses	<u>3,848</u>	<u>2,902</u>
Total Operating Expenses	<u>85,796</u>	<u>77,258</u>
Income from Operations	<u>12,394</u>	<u>15,919</u>
Other Income (Expense)		
Interest Income	4,378	2,864
Gain on Disposal of Property, Plant and Equipment	48	42
Interest Expense	<u>(12,473)</u>	<u>(12,518)</u>
Total Other Income (Expense)	<u>(8,047)</u>	<u>(9,612)</u>
Income Before Extraordinary Item	4,347	6,307
Extraordinary Item		
Loss on Defeasance of Debt	<u>-</u>	<u>(12,763)</u>
Net Income (Loss)	<u>\$ 4,347</u>	<u>\$ (6,456)</u>

(Continued)

See auditors' report and accompanying notes.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

STATEMENTS OF REVENUES, EXPENSES

AND CHANGES IN FUND EQUITY

Years Ended December 31, 1994 and 1993

(amounts expressed in thousands)

(Continued)

	<u>Contributions in Aid of Construction</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 1992	\$ 183,855	\$ 153,203	\$ 337,058
Net Loss for the Year	-	(6,456)	(6,456)
Additions to Contributions in Aid of Construction	4,762	-	4,762
Amortization of Contributions in Aid of Construction	<u>(7,080)</u>	<u>7,080</u>	<u>-</u>
Balance at December 31, 1993	181,537	153,827	335,364
Prior Period Adjustment for the Cumulative Effect on Prior Years (to December 31, 1993) of Implementing GASB16, Accounting for Compensated Absences	-	(3,183)	(3,183)
Net Income for the Year	-	4,347	4,347
Additions to Contributions in Aid of Construction	3,750	-	3,750
Amortization of Contributions in Aid of Construction	<u>(7,173)</u>	<u>7,173</u>	<u>-</u>
Balance at December 31, 1994	\$ <u>178,114</u>	\$ <u>162,164</u>	\$ <u>340,278</u>

See auditors' report and accompanying notes.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 1994 and 1993
(amounts expressed in thousands)**

	<u>1994</u>	<u>1993</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 94,190	\$ 86,835
Cash Payments for Goods and Services	(27,313)	(25,846)
Cash Payments for Personnel Costs	(34,174)	(32,225)
Other Operating Revenues	<u>3,553</u>	<u>3,113</u>
Net Cash Provided by Operating Activities	<u>36,256</u>	<u>31,877</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Revenue Bonds	-	171,790
Defeasance of Revenue Bonds	-	(103,875)
Financing Costs	-	(7,936)
Loss on Defeasance of Debt	-	(12,763)
Proceeds from Loans	2,548	549
Principal and Interest Payments on Long-Term Debt	(20,565)	(24,031)
Acquisition and Construction of Capital Assets	(47,444)	(30,446)
Net Transfer From Construction Account	1,332	2,238
Grants and Contributions	3,750	4,762
Proceeds from Sale of Equipment	<u>48</u>	<u>42</u>
Net Cash (Used) Provided for Capital and Related Financing Activities	<u>(60,331)</u>	<u>330</u>
Cash Flows from Investing Activities		
Amount to be Transferred to Surplus Account	(14,130)	(9,580)
Sale (Purchase) of Government Securities	36,146	(26,190)
Interest on Investments	<u>4,404</u>	<u>3,846</u>
Net Cash Provided (Used) from Investing Activities	<u>26,420</u>	<u>(31,924)</u>
Net Increase in Cash and Cash Equivalents	2,345	283
Cash and Cash Equivalents at January 1	<u>9,703</u>	<u>9,420</u>
Cash and Cash Equivalents at December 31	<u>\$ 12,048</u>	<u>\$ 9,703</u>
Operating Income	\$ 12,394	\$ 15,919
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	20,551	19,043
Allowance for Doubtful Accounts	120	(530)
Change in Assets and Liabilities:		
Increase in Receivables	(567)	(2,696)
Decrease in Other Assets	(622)	(3)
Increase in Prepaid Expenses and Other Assets	215	68
Increase in Accrued Payroll and Other Liabilities and Compensated Absences	790	286
(Decrease) Increase in Operating Accounts Payable	<u>3,375</u>	<u>(210)</u>
Net Cash Provided by Operating Activities	<u>\$ 36,256</u>	<u>\$ 31,877</u>

See auditors' report and accompanying notes.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 1 - ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the accompanying financial statements follows.

Organization

The Metropolitan Sewer District of Greater Cincinnati (MSD) was established pursuant to an agreement dated May 1, 1968 between the Board of Commissioners of Hamilton County and the City of Cincinnati. Under a contract with the City of Cincinnati, the Board designated the City as its agent for the maintenance and operation of MSD. The annual budget, prepared on the cash basis of accounting, is approved by the Board and administered by the City. Budgetary control is exercised at the divisional level, and between personnel and all other costs.

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

Investments

Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts on purchases. Amortization and accretion is by the straight-line method over the term of the investment. Any differences between amortization or accretion by the straight-line method versus the interest method are immaterial. These investment securities are not adjusted to the lower of cost or market because management has the intention and ability to hold these securities until maturity as they have consistently done in prior years.

Inventory

Supplies and materials are stated at the lower of cost of market on a first-in, first-out (FIFO) basis.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost for assets acquired after MSD's inception in 1968. Assets which were acquired prior to 1968 and not identifiable with specific historical costs are not included in the property, plant and equipment balance. Assets acquired by MSD through contributions, such as contributions from land developers and Federal and state and grants, are capitalized and recorded in the plant records at the contributors' reported cost. Construction costs include interest capitalized on debt during the period of construction and the cost of in-force labor.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993**

NOTE 1 - ACCOUNTING POLICIES (Continued)

Depreciation expense is computed on the straight-line method over the estimated useful lives of the respective assets. The estimated lives are as follows:

Building and structures	40 Years
Processing systems	25 Years
Office and service equipment	5 - 15 Years

Depreciation expense on fixed assets acquired through contributions is reported as an offset against contributions in aid of construction in fund equity. Any gain or loss arising from the disposal of fixed assets has been credited or charged to income.

Unamortized Financing Costs

The unamortized financing costs include bond discount and consulting and attorney fees incurred in connection with the revenue bond obligations. These amounts are being amortized on the interest method and the straight-line method, respectively, over the lives of the revenue bonds.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, all highly liquid investments (excluding restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Pension Plans

Employees participate in either the City of Cincinnati's Retirement System or the Public Employees Retirement System administered by the State of Ohio. Pension costs reflect a percentage of employees' gross pay, as defined by the terms of pension plans in which employees participate. MSD's policy is to fund pension costs accrued.

Insurance

MSD participates in Ohio Workers' Compensation and Ohio State Unemployment programs through the City of Cincinnati.

Compensated Absences

Compensated absences are accrued in accordance with Statement No. 16 issued by the Governmental Accounting Standards Board.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 1 - ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consist of the following at December 31, 1994 and 1993:

	(in thousands)			
	1994		1993	
	<u>Cash and</u> <u>Equivalents</u>	<u>Investments</u>	<u>Cash and</u> <u>Equivalents</u>	<u>Investments</u>
Amounts held by City of Cincinnati	\$35,553	\$ -	\$29,989	\$ -
Investments held by Trustees:				
Reserve	9	17,465	5,476	14,151
Replacement and Improvement	6	4,966	2,061	2,939
Bond Retirement	6	2,304	300	3,347
Surplus	<u>1</u>	<u>26,731</u>	<u>21,719</u>	<u>28,062</u>
Total cash and investments	<u>\$35,575</u>	<u>\$51,466</u>	<u>\$59,545</u>	<u>\$48,499</u>

The amounts held by the City of Cincinnati (the City) are invested on MSD's behalf in accordance with the Cincinnati Municipal Code. These amounts are collateralized as part of the City's cash and investment balances. Bank balances of the City are covered by Federal depository insurance or collateral held by the Cincinnati Branch of the Federal Reserve Bank of Cleveland or the City's agent in the City's name.

Investments held by trustees are eligible investments as defined by the Trust Agreement and are registered in the name of the trustee for the benefit of MSD.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investment securities held-to-maturity at December 31, 1994 and 1993 consist of the following:

(in thousands)	1994			
	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
U.S. Government Treasury Bills	\$20,464	\$ 337	\$ -	\$20,801
U.S. Government Treasury Notes	24,522	-	534	23,988
U.S. Government Treasury Bonds	<u>6,480</u>	<u>580</u>	<u>-</u>	<u>7,059</u>
Totals	<u>\$51,466</u>	<u>\$ 917</u>	<u>\$ 534</u>	<u>\$51,848</u>

	1993			
	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
U.S. Government Treasury Bills	\$12,142	\$ 539	\$ 10	\$12,671
U.S. Government Treasury Notes	29,740	312	-	30,052
U.S. Government Treasury Bonds	<u>6,617</u>	<u>1,580</u>	<u>-</u>	<u>8,197</u>
Totals	<u>\$48,499</u>	<u>\$ 2,431</u>	<u>\$ 10</u>	<u>\$50,920</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 1994 and 1993, consisted of the following:

	(in thousands)	
	<u>1994</u>	<u>1993</u>
Sewerage charges and surcharges-unbilled	\$ 8,431	\$ 7,386
Sewerage charges and surcharges-billed	8,180	8,168
Other	319	809
Less allowable for doubtful accounts	<u>(720)</u>	<u>(600)</u>
Total	<u>\$16,210</u>	<u>\$15,763</u>

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1994 and 1993

NOTE 4 - RESTRICTIONS ON ASSETS

Land acquired for MSD's use is titled to either the City of Cincinnati or Hamilton County. The cost of this land has been recorded on the books of MSD since it has the full benefits of the land as an economical resource.

In August 1985, the Federal District Court entered a consent order in an action with MSD and others (see Commitments and Contingencies Note). In complying with the consent order, MSD is required to maintain amounts on deposit in an environmental security account. Expenditures from this account must be approved by the U.S. Environmental Protection Agency. The balance of this account, which is included in other assets, was \$816,000 and \$790,000 at December 31, 1994 and 1993, respectively.

The Trust Agreement for the 1993, 1991, 1986, and 1985 Revenue Bonds (see Long-Term Debt Note 5) requires the establishment of certain trust accounts including a Bond Account, Bond Reserve Account, Replacement and Improvement Account, and a Surplus Account to be held by the Trustee. The Bond Account will be used to accumulate periodic principal and interest payments. The Bond Reserve Account will be funded in an amount equal to the highest annual future debt service requirement. The Replacement and Improvement Account will be maintained with a balance of \$5,000,000. The Surplus Account is available to be used for any other Sewer System purpose. The Trust Agreement also requires the creation of a Construction Account to be held by the City to pay for project costs.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 5 - LONG-TERM DEBT

As of December 31, 1994 and 1993, long-term debt consisted of the following:

	(in thousands, except percents)				
	Principal Issue	Interest Rate	Year of Maturity (1)	1994	1993
Series A Revenue Bonds					
1993	\$171,790	2.45-5.60	2016	\$167,775	\$168,515
1991	90,950	4.80-6.70	2013	55,410	56,440
1986	85,020	4.90-7.50	2011	7,615	8,445
1985	63,800	6.00-9.50	2005	2,725	5,240
Loveland Sewer District	200	5.75	2000	60	65
Ohio Water Development Authority Contracts	41,830	2.00-7.49	2019	9,632	10,951
Ohio Water and Sewer Rotary Commission	-	-	-	136	136
State of Ohio - Title II	-	-	-	88	93
Water Pollution Control Loan Fund - Construction					
Drawdown	-	3.54-4.80	-	2,919	452
Capital Lease	293	7.35	1998	<u>172</u>	<u>214</u>
Total Obligations				246,532	250,551
Less current maturities				<u>6,983</u>	<u>6,486</u>
Long-term portion				<u>\$239,549</u>	<u>\$ 244,065</u>

(1) See Note 6 - Extraordinary Item - Defeased Debt

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 5 - LONG-TERM DEBT (Continued)

Principal payments on long-term debt for the subsequent five years and thereafter are as follows:

	(in thousands)
1995	\$ 6,983
1996	7,329
1997	7,537
1998	7,887
1999	8,267
Thereafter	<u>208,529</u>
Total	<u>\$246,532</u>

Series A Revenue Bonds

Effective May 4, 1993, MSD issued \$171,790,000 County of Hamilton, Ohio 1993 Series A Sewer System Improvement and Refunding Revenue Bonds dated April 15, 1993. The proceeds from the 1993 Bonds were used to permanently fund certain previous capital expenditures, provide funds for new projects, defease a portion of the 1986 and 1991 Series A bond issues, fund the new bond reserve requirement, and pay the cost of issuance. The 1993 bonds are special obligations of the District payable solely from the net revenues of the District and are issued on a parity with the 1985, 1986 and 1991 Series A bonds, secured equally and ratably under the Trust Agreement.

Effective February 26, 1991, MSD issued \$90,950,000 County of Hamilton, Ohio, 1991 Series A Sewer System Improvement and Refunding Revenue Bonds dated January 15, 1991. The proceeds from the 1991 Bonds were used to permanently fund certain previous capital expenditures, provide funds for new projects, defease a portion of the 1985 Series A bond issue, fund the new bond reserve requirement, and pay the cost of issuance.

Effective May 29, 1986 MSD issued \$85,020,000 County of Hamilton, Ohio Sewer System Revenue Bonds, 1986 Series A (1986 Bonds). The proceeds from the 1986 Bonds were used to fund certain construction projects, establish various trust funds required by the Bond Indenture, and to pay certain fees and expenses incurred with the issuance of the bonds.

Effective November 14, 1985, MSD issued \$63,800,000 County of Hamilton, Ohio, 1985 Series A Sewer System Revenue Bonds dated October 1, 1985. The proceeds from the 1985 Bonds were used for advance refunding of the County's currently outstanding General Obligation Bonds used for Sewer System purposes, refunding of a portion of the County's currently outstanding Certificates of Indebtedness used for Sewer System purposes and providing funds for various capital improvement projects.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 5 - LONG-TERM DEBT (Continued)

The 1993, 1991, 1986 and 1985 Bonds may be redeemed prior to their maturities in accordance with provisions of the bond resolutions. The redemption prices for the bonds include declining premiums up to 3 percent of principal.

Maturities for bonds over the next five years and thereafter are shown below.

	(in thousands)			
	<u>1993</u> <u>Bonds</u>	<u>1991</u> <u>Bonds</u>	<u>1986</u> <u>Bonds</u>	<u>1985</u> <u>Bonds</u>
1995	\$ 760	\$ 1,090	\$ 880	\$2,725
1996	785	4,110	940	-
1997	815	4,345	1,005	-
1998	845	4,605	1,075	-
1999	885	4,875	1,155	-
Thereafter	<u>163,685</u>	<u>36,385</u>	<u>2,560</u>	<u>-</u>
	<u>\$167,775</u>	<u>\$55,410</u>	<u>\$7,615</u>	<u>\$2,725</u>

Under the terms of the amended revenue bond trust indenture, MSD has agreed to certain covenants, among other things, to restrict additional borrowing, fix and maintain rates sufficient to meet debt service requirements, and maintain specified fund balances under trust agreements.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 5 - LONG-TERM DEBT (Continued)

The Revenue Serial bond issues as discussed above contain covenants which require the District to maintain a level of debt service coverage. The following calculation reflects the District's debt service coverage.

	(in thousands)	
	<u>1994</u>	<u>1993</u>
Revenues:		
Total operating revenues	\$ 98,190	\$ 93,177
Interest Income	4,378	2,864
Capitalized Interest Income	<u>525</u>	<u>287</u>
 Total pledge revenues	 103,093	 96,328
Total operating and maintenance expenses		
less depreciation and amortization	(65,245)	(58,215)
Half of Pledged Revenues Transferred to Surplus Account	<u>7,065</u>	<u>4,790</u>
 Net income available for debt service	(a) \$ <u>44,913</u>	\$ <u>42,903</u>
 Principal and Interest Requirements on Revenue Bonds	(b) \$ <u>18,437</u>	\$ <u>20,391</u>
 Principal and interest requirements on all obligations	(c) \$ <u>20,609</u>	\$ <u>22,500</u>
 Debt Service Coverage:		
Revenue Bonds (a) divided (b)	<u>2.44</u>	<u>2.10</u>
 All Obligations (a) divided (c)	<u>2.18</u>	<u>1.91</u>
 Basic coverage required on bonds	<u>1.25</u>	<u>1.25</u>

Loveland Sewer District

Sewer Improvement Bonds in the amount of \$200,000 were issued by the City of Loveland in 1974. MSD assumed this debt upon merger of the Loveland Sewer District into MSD in March, 1985.

Ohio Water Development Authority Contracts

All contracts between the Ohio Water Development Authority (OWDA) and the Metropolitan Sewer District require MSD to prescribe and charge such rates for sewer usage which are sufficient (after expenses of operation and maintenance) to pay principal and interest on OWDA contracts. The principal is repayable in equal semi-annual installments to maturity.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993**

NOTE 5 - LONG-TERM DEBT (Continued)

Ohio Water and Sewer Rotary Commission

Advances from Ohio Water and Sewer Rotary Commission represent tap-in fees and acreage assessments to be forwarded to the Commission upon collection from customers. Such advances do not bear interest unless they are determined to be in default.

State of Ohio Title II

State of Ohio Title II, zero interest loan represents funding for certain local sewer improvements. The properties affected, through assessments, provide the funding for repayment.

Water Pollution Control Loan Fund

The MSD has received low interest loan commitments from the Ohio Water Pollution Control Loan Fund for certain qualified projects. As the projects progress the commitments are drawn down.

Capital Lease

A five year lease/purchase agreement for communication equipment commenced in 1993 with monthly payments of \$4,661 to 1998.

Interest on Long-Term Obligations

For the years 1994 and 1993, interest cost incurred totalled \$13,971,000 and \$14,707,000, respectively, of which \$1,498,000 and \$1,243,000 were capitalized as part of the cost of MSD's additions to property, plant, and equipment.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 6 - EXTRAORDINARY ITEM - DEFEASED DEBT

Defeasance During 1993

On May 4, 1993, the District issued \$171,790,000 1993 Series A Sewer System Improvement and Refunding Revenue bonds dated April 15, 1993, with an average interest rate of 5.58 percent. A portion of the proceeds from the bond issue was used to purchase U.S. Government Securities to advance refund \$71,960,000 of outstanding 1986 Series A bonds with an average interest rate of 7.37 percent and \$31,915,000 of outstanding 1991 Series A bonds with an average interest rate of 6.7 percent. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1986 Series A Bonds maturing after December 1, 2001 and the 1991 Series A bonds maturing after December 1, 2005. As a result, the 1986 Series A Bonds maturing after December 31, 2001 and the 1991 Series A bonds maturing after December 1, 2005, are considered to be defeased and the liability for those bonds has been removed from the balance sheet. At December 31, 1994, the amount of defeased debt outstanding amounted to \$71,960,000 and \$31,915,000, respectively on the 1986 Series A and 1991 Series A Bonds.

Although the advance refunding resulted in the recognition of an accounting loss of \$12,763,000 for the year ended December 31, 1993, which is reflected on the Statement of Revenues and Expenses as an extraordinary item, the District in effect reduced its aggregate debt service payments by \$12.3 million and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$7.7 million.

Other Defeasance

In prior years, MSD defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 1994 and 1993, the amount of prior year's defeased debt outstanding amounted to \$51,338,000 and \$54,320,000, respectively.

NOTE 7 - CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions have been received from the OWDA and the United States Government in accordance with agreements transacted between MSD and these two entities. The City of Cincinnati and Hamilton County provided working capital to MSD upon formation, and those capital contributions are included in the amounts below. Other contributions have been received in connection with the expansion of sewerage services.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 7 - CONTRIBUTIONS IN AID OF CONSTRUCTION (Continued)

As of December 31, 1994 and 1993, net contributions in aid of construction consisted of the following:

	(in thousands)	
	<u>1994</u>	<u>1993</u>
United States Government Grants	\$129,722	\$129,722
City of Cincinnati	68,300	68,300
Ohio Water Development Authority Grants	45,283	44,414
Customers	59,038	56,156
Hamilton County	<u>1,738</u>	<u>1,738</u>
	304,081	300,330
Less accumulated amortization of contributions in aid of construction	<u>(125,967)</u>	<u>(118,793)</u>
	<u>\$178,114</u>	<u>\$181,537</u>

NOTE 8 - PENSION AND RETIREMENT

All MSD full-time employees participate in either the Retirement System of the City of Cincinnati (City System) or the Public Employees' Retirement System administered by the State of Ohio (State PERS). Each plan is a cost-sharing, multiple-employer, public employee retirement system. The payroll for employees covered by the plans for the year ended December 31, 1994, was \$25,430,000 and \$903,000 for the City System and State PERS, respectively. MSD's total payroll was \$26,333,000. The payroll for employees covered by the plans for the year ended December 31, 1993, was \$24,454,000 and \$864,000 for the City System and State PERS, respectively. MSD's total payroll for 1993 was \$25,319,000.

Income sources for each of the pension system include both employee and employer contributions as well as income earned on investments. Employer contributions the pension funds are current and fully met as required by law. Annual contributions to all pension systems include a provision for past service costs to properly fund pension and other benefits payable on account for creditable service.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 8 - PENSION AND RETIREMENT (Continued)

The following table lists the employer and employee contribution rates and amounts paid by MSD for each retirement system for the year ended December 31, 1994.

	(in thousands, except percents)			
	<u>Employer</u>		<u>Employee</u>	
	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>
City of Cincinnati Retirement System	18.90%	\$5,021*	7.0%	\$1,780
Public Employees Retirement System	13.55%	\$ 122**	8.5%	\$ 77

* Employer amount includes health care costs which were included in the calculation of the pension benefit obligation.

** A portion of the PERS employer amount (5.11%) is used to fund a health care program which is not part of pension benefit obligation calculations.

The "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits estimated to be payable in the future as a result of the employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess each system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems and employers. The measure is independent of the actuarial funding method used to determine contributions to the retirement system. The systems do not make separate measurements of assets and pension benefit obligation for individual employers.

Listed below, for each system, is the pension benefit obligation for each system as a whole, net assets available for benefits, and the unfunded pension benefit obligation. These were determined through actuarial evaluation performed as of December 31, 1994, for the City System and December 31, 1993, for the State PERS (latest information available).

	(in thousands)		
	<u>Pension Benefit Obligation(PBO)</u>	<u>Net Assets Available</u>	<u>Unfunded PBO</u>
City of Cincinnati Retirement System	\$ 1,293,305	\$ 1,223,529	\$ 69,776
Public Employees Retirement System	\$23,239,400	\$22,888,800	\$350,600

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993**

NOTE 8 - PENSION AND RETIREMENT (Continued)

City of Cincinnati Retirement System

The service retirement allowance vests after five years of creditable service. Medical care benefits vest after fifteen years of creditable service or after reaching age sixty with five years of creditable service. Any member in service may retire upon attaining age sixty, regardless of length of membership service if he was enrolled prior to January 1, 1969, or with a least five years of membership service if enrollment occurred at January 1, 1969, or later; or upon completing five years of creditable service before age sixty members may retire with a retirement allowance commencing at age sixty, provided, however, at the time of election of the deferred annuity there is no loan outstanding against his contributions; or upon completing 30 or more years of membership service at any age with a retirement allowance commencing immediately.

The annual retirement allowance consist of an annuity provided by the number equal in value to contributions with interest at the time of retirement and a pension, which together with annuity, produces a total annual retirement allowance equal to 2 percent of the average highest compensation multiplied by the number of years of membership service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by the Cincinnati Municipal Code.

Each member contributes at a rate of seven percent (7%) of his salary until his retirement. MSD makes annual contributions based on a percentage of the salaries of all members which is determined actuarial at each year end for the next year. The contribution rate for 1994 was 18.90 percent consisting of 7.4163 percent for the normal contribution and 11.4837 percent for the accrued liability contribution.

The City System has 6,349 active contributing participants of which 733 are MSD employees. For 1994 MSD's contribution was 17.7 percent of the total employer contribution.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993

NOTE 8 - PENSION AND RETIREMENT (Continued)

The following significant actuarial assumptions used to compute the pension benefit obligation are the same as those used to compute actuarial determined contribution requirements.

1. Investment Return: 8.25 percent per annum, compounded annually.
2. Mortality: a) Non-disabled - 1983 Group Annuity Mortality Table
b) Disabled - 1960 City of Cincinnati Experience Table
3. Salary Scale: 5.5 percent per annum plus provision for an additional 9 percent increase in final average salary due to final lump sum salary payment.
4. Rate of Termination: 1979 City of Cincinnati Experience Table
5. Rate of Disability: 1979 City of Cincinnati Experience Table
6. Asset Valuation: Book Value
7. Assumed Retirement Age: 62
8. Medical Benefits: Current costs with projected increases of 7 percent per annum.

The "entry age normal with frozen initial liability" is the funding method used by the actuary in computing the employer contribution rate and estimated actuarial liability of the system. The unfunded actuarial liability at December 31, 1994, was \$82,492,804. The period of financing this unfunded liability is fourteen years. In 1994, the Board voted to the period of amortization to fifteen years.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year trend information is available and the Analysis of Funding Progress is available for years 1987 through 1994 only.

Other Postemployment Benefit Information

The City System provides Hospital and Surgical Insurance to retired members who have earned fifteen years credited service at the time of termination or terminate after age sixty with five years credited service and those who are receiving survivor benefits of eligible members are entitled to have their Hospital and Surgical Insurance premiums paid by the System. When benefits under the coverage would be reduced by reason of the retired member's eligibility for hospital and medical benefits under federal social security laws, the System will pay whatever additional fees are required for the federal medical coverage.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1994 and 1993**

NOTE 8 - PENSION AND RETIREMENT (Continued)

The health care coverage provided by the City System is considered an Other Postemployment Benefit (OPEB). It is advanced funded on an actuarial determined basis as a portion of the employer contribution requirement to the System. The Cincinnati Municipal Code provides authority for employer contributions. Health care coverage has been included in the calculation of the pension benefit obligation. Assets and liabilities are not separately determined.

Public Employees' Retirement System

MSD has 26 employees, as of December 31, 1994, who are participants of the Public Employees' Retirement System administered by the State of Ohio. This plan is not a significant portion of the overall operations of MSD. Additional disclosures concerning this plan, including other postemployment benefit information, can be found in the plan's annual financial statements.

NOTE 9 - RELATED PARTY TRANSACTIONS

Cincinnati Water Works provides billing and collection services on customers' accounts for MSD. Fees for these services for 1994 and 1993 were \$2,810,000 and \$3,092,000, respectively. Fees are also paid to other municipalities and villages within Hamilton County for collection of sewerage bills.

The City of Cincinnati provides "overhead" services to MSD, such as check disbursement, investment and legal services, etc. The fees for these services for 1994 and 1993 were \$1,899,700 and \$1,957,000, respectively. In addition, the City's Municipal Garage provides gasoline and repairs vehicles for MSD. Fees for these services were \$900,000 and \$870,000 for 1994 and 1993, respectively.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI**NOTES TO THE FINANCIAL STATEMENTS****December 31, 1994 and 1993****NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The City of Cincinnati and the Board of County Commissioners of Hamilton County, Ohio, are parties to a Federal Consent Order which was entered in settlement of United States of America vs. The Board of County Commissioners of Hamilton County, Ohio, et al. Case No. C-1-85-0693. The City and County have continued in their efforts to negotiate an amendment to change certain construction schedules appearing in exhibits to that order. The City and County believe these changes are due to circumstances beyond the control of either, and are seeking approval of those schedule modifications from the United States Environmental Protection Agency. The consent order provides for stipulated penalties for failure to meet certain construction schedule deadlines but specifically contemplates that no such penalties will be collected from either defendant where the non-compliance was beyond the reasonable control of the defendants. In addition, according to MSD's Chief Legal Counsel, EPA has requested the payment of \$290,000 in stipulated penalties under the Consent Order for certain effluent limit excursions. The Consent order provides for stipulated penalties under certain conditions, and although the City and County have argued that no substantial penalties are appropriate, it appears that EPA does intend to extract some monetary payment for the excursions. Currently, the City is awaiting EPA's response to certain defenses presented during 1992.

NOTE 11 - COMPENSATED ABSENCES

In accordance with GASB 16 which is effective for years beginning after June 30, 1993, the following liabilities associated with employees' compensated absences have been recognized along with the accompanying salary-related payments associated with the payment of compensated absences: Vacation, Sick Leave, and Compensatory Time.

NOTE 12 - PRIOR PERIOD ADJUSTMENT

In accordance with GASB 16 which is effective for years beginning after June 30, 1993, the related liabilities for employees' compensated absences and salary-related payments associated with the payment of compensated absences have been recognized. The resulting liability, \$3,183,000, associated with prior periods (through December 31, 1993) has been reported as a prior period adjustment to the beginning 1994 retained earnings balance as the data to restate the prior year is not readily available.



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INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE

The Honorable Board of County Commissioners
The Metropolitan Sewer District of Greater Cincinnati
County of Hamilton, Ohio

We have audited the financial statements of The Metropolitan Sewer District of Greater Cincinnati (MSD) as of and for the year ended December 31, 1994, and have issued our report thereon dated May 12, 1995.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of MSD for the year ended December 31, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of MSD is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from authorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Revenue/receipts
- Purchasing/disbursements
- Payroll
- External financial reporting

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the Hamilton County Board of Commissioners, the Auditor of the State of Ohio, and the cognizant federal audit agency. However, this report is a matter of public record and its distribution is not limited.

Vonlehman & Company Inc.

May 12, 1995



VonLEHMAN & Company Inc.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH LAWS AND REGULATIONS RELATING TO THE
FINANCIAL STATEMENTS**

The Honorable Board of County Commissioners
The Metropolitan Sewer District of Greater Cincinnati
County of Hamilton, Ohio

We have audited the financial statements of the Metropolitan Sewer District of Greater Cincinnati, Cincinnati, Ohio, as of and for the year ended December 31, 1994, and have issued our report thereon dated May 12, 1995.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to MSD is the responsibility of MSD's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of MSD's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, MSD complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that MSD had not complied, in all material respects, with those provisions. We noted no immaterial instances of noncompliance.

This report is intended for the information of the Hamilton County Board of Commissioners, the Auditor of the State of Ohio, and the cognizant federal audit agency. However, this report is a matter of public record and its distribution is not limited.

VonLehman & Company Inc.

May 12, 1995



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS OF THE OHIO COMPLIANCE SUPPLEMENT**

The Honorable Board of County Commissioners
The Metropolitan Sewer District of Greater Cincinnati
County of Hamilton, Ohio

We have audited the financial statements of the Metropolitan Sewer District of Greater Cincinnati, Cincinnati, Ohio, as of and for the year ended December 31, 1994, and have issued our report thereon dated May 12, 1995.

We have also applied procedures to test MSD's compliance with provisions of laws and regulations that the Auditor of State has determined to be significant as a matter of public policy, public stewardship, or public accountability, as identified in the Auditor of State's Ohio Compliance Supplement, revised December, 1989, for the year ended December 31, 1994.

Compliance with laws and regulations to MSD is the responsibility of MSD's management. Our responsibility is to examine, on a test basis, evidence about compliance with these requirements. However, our procedures were substantially less in scope than an audit, whose objective is to express an opinion on MSD's compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our procedures indicate that, for the items tested, MSD complied with provisions of laws and regulations that the Auditor of State has determined to be significant as a matter of public policy, public stewardship, or public accountability, as identified in the Auditor of State's Ohio Compliance Supplement, revised December, 1989.

Nothing came to our attention that caused us to believe that for the items not tested, MSD was not in compliance with provisions of laws and regulations that the Auditor of State has determined to be significant as a matter of public policy, public stewardship, or public accountability, as identified in the Auditor of State's Ohio Compliance Supplement, revised December, 1989.

Page Two

This report is intended for the information of the Hamilton County Board of Commissioners, the Auditor of the State of Ohio, and the cognizant federal audit agency. However, this report is a matter of public record and its distribution is not limited.

Vonlehman & Company Inc.

May 12, 1995

